

Talk About Taxes

Local and State Financing Discussion Questions

The states and localities are the home governments traditionally and presently responsible for providing most public services that affect intimately the daily lives of their citizens. These governments conduct the public schools and colleges, build and maintain the roads and streets, give aid to the needy, run public hospitals for the physically and mentally ill, operate public water and sewerage facilities, provide police and fire protection, record births and deaths, issue licenses to hunt and to marry, and perform dozens of other chores, both menial and exalted, that are demanded by voters of a civilized, more and more intricately geared, rapidly changing, free society.

State and local taxes to pay for these services have increased from about \$10.5 billions in 1945 to about \$30.3 billions in 1957, and the ratio of taxes to Gross National Product (GNP)* has grown from 4.9 per cent in 1945 to 7.0 per cent in 1957 (Figures 1 and 2). Most recently, in 1956 and 1957, increases substantially exceeded those of earlier post-war years. State and local net long-term debt rose from about \$14 billions in 1945 to about \$47 billions in 1957. To forestall hasty conclusions, let us note that the ratio of taxes to GNP in 1929 was 6.2 per cent, and rose, because of the drop in GNP, to 10.9 per cent in 1932.

State and local taxes rose somewhat in the United States during the second World War (from \$9.2 billions in 1941 to \$10.5 billions in 1945), but total production and incomes in the nation's economy were growing much more rapidly. War effort priorities curtailed most state and local services and construction. Many state and local gov-

ernments built up surpluses. Then many held off post-war expansion of needed construction and other activities in anticipation of a depression and price decline. As of today, the surpluses have long since disappeared; construction of schools, roads, hospitals and the like is under way after a long period of curtailment during the '30s and '40s; current services in education, welfare and social security, health, highways and so on have been expanded in response to public needs and demands; taxes have increased both in dollars and relative to national production; and debt has mounted.

Federal Finance Relative to State and Local

The past 30 years have witnessed a major shift in federal finance relative to state and local, primarily as an outgrowth of the second World War and continuing cold war.

Federal taxes in 1929 were little more than half the \$6.4 billions of state-local. In 1957, they were two and a half times the state-local aggregate of approximately \$30.3 billions. State taxes have likewise expanded more than local, though not as much as federal. All taxes in 1957 were about 25 per cent of the GNP, compared with 9.4 per cent in 1929, predominantly because of the growth of federal collections. Federal taxes, as a ratio of the GNP, reached their peak at the end of the second World War, but have remained relatively high as state and local collections have moved upward.

In 1957, approximately four-fifths of federal budget expenditures were for the "common defense:" military

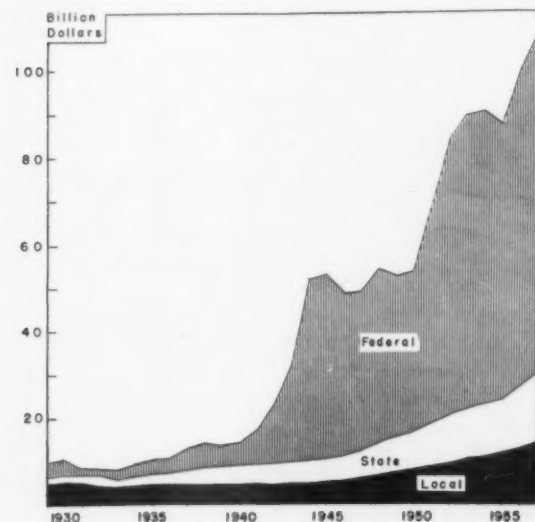


Figure 1. Amount of Federal, State and Local Taxes, 1929-1957.

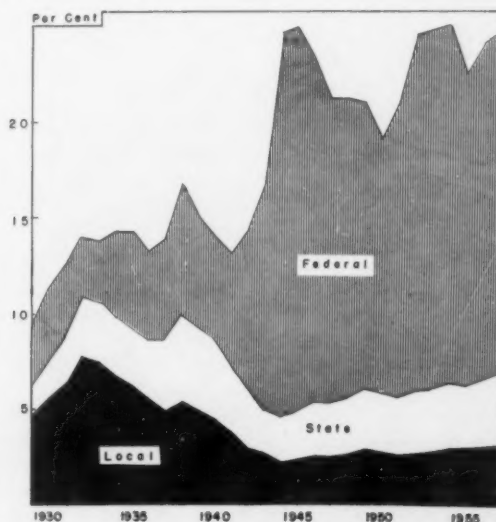


Figure 2. Ratio of Federal, State and Local Taxes to Gross National Product, 1929-1957.

*The "GNP" is a measure of total production in the nation.

EXPENDITURES OF STATE AND LOCAL GOVERNMENTS, 1957

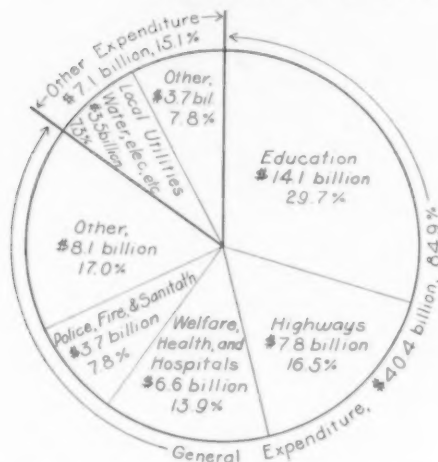


Figure 3. United States Total - \$47.5 billion

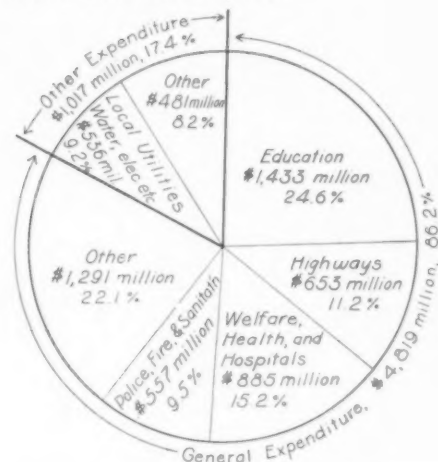


Figure 4. New York State Total - \$5,836 million

services, international affairs and finance, veterans' services and benefits, and interest on the national debt. The "civilian" or "non-defense" functions are financially significant, however. The more important of them include trust fund payments of Old Age, Survivors' and Disability Insurance (estimated by the federal Budget Bureau at \$11.9 billions for the fiscal year ending June 30, 1960), farm price support and related programs (\$4.5 billions), veterans' services and benefits if one chooses not to include them under defense (\$5.1 billions), and flood control, irrigation and related activities (\$1.2 billions).

Over the past few decades, federal conditional grants of financial aid for stimulation and partial support of state and local programs have grown in amount and variety of purposes. The federal Budget Bureau estimated the total required for fiscal 1960 at \$6.9 billions of which over \$3 billions was to be for highway construction and \$2 billions for public assistance to needy persons. The \$6.9 billions figure is more than double that of five years before.

Where the Money Goes

The federal Census Bureau reports that all state and local governments spent \$47.6 billions in 1957 (Figure 3). Education, highways and welfare-hospitals-health together account for 54 per cent of total expenditures and 64 per cent of "general" outlays. Education—predominantly local schools—is the most expensive state and local function.

The pattern in New York, according to Census figures, is fairly similar except that education and highways are proportionately somewhat less important in the total picture, and welfare, health, hospitals and other functions somewhat more so (Figure 4). The variation from the national pattern is partly a reflection of the heavy urban concentrations in New York compared with most other states. Governments in urban areas perform a variety of services that rural dwellers must provide for themselves, such as water supply, sewerage and rapid transit.

Competent analysts predict very considerably higher state and local spending over the next several years. One fore-

cast, for example, envisions expenditures by 1970 almost double those of 1957, if present economic and population trends continue, prices are stable, and no drastic change occurs in the international situation. At the same time, the Gross National Product is expected to increase almost as much so that the ratio of state and local spending to the GNP might rise only slightly. These predictions are for the nation as a whole, and of course are subject to wide variation among individual states and communities depending upon many factors including public demand for things to be done by government.

SOME ISSUES. In the field of education, here are a few issues that relate to spending:

1. What do we want our public schools to do for our children and our community?
2. What are prospects for school attendance over the next several years?
3. How do the answers to questions 1 and 2 balance against available school buildings? Other school facilities and equipment? Kind and number of teachers? Current school budgets?
4. What changes in efficiency or productivity of the school "industry" do we foresee?

Among questions relating to highway expenditures are:

1. What do we want our highways to do for those who travel them and for the community?
2. What are the prospective changes in traffic over the next several years? In number of vehicles? In size and weight of trucks? In dependence upon automotive transport for carrying on daily business and social life?
3. How do the answers to questions 1 and 2 balance against presently available highways? Current construction and reconstruction? Maintenance and snow removal?
4. What changes in efficiency or productivity of highway work do we foresee?

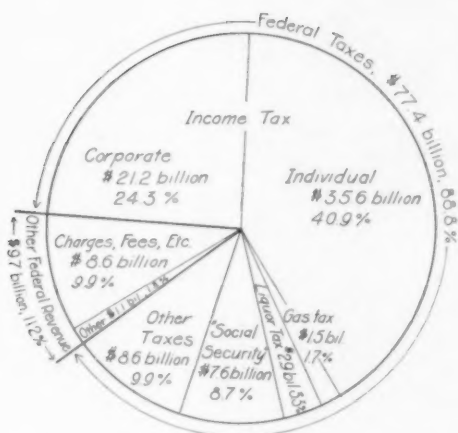


Figure 5 Federal Revenues, 1957, \$87.1 Billion

5. What effects will the answers to the preceding questions have upon highway outlays?

In addition to appraising prospects for each of many functions, we may ask which of them, taken together, should have highest claims on taxpayers' pocketbooks. Which of them should be curtailed or abandoned? What effects will answers to these questions have upon state and local spending?

Where the Money Comes From

Country-wide, taxpayers in 1957 paid more than twice as much in taxes to the national government as to state and local units, and paid federal levies predominantly in the form of income taxes (Figures 5-6-8). Locally, the property tax was supreme with the possible exception of a few urban centers. State taxes generally were more diversi-

REVENUES OF STATE GOVERNMENTS, 1957

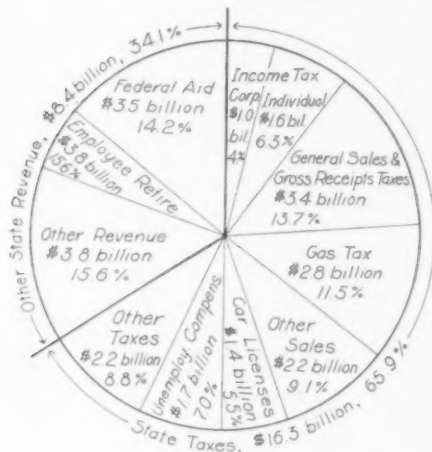


Figure 6 United States Total - \$24.7 Billion

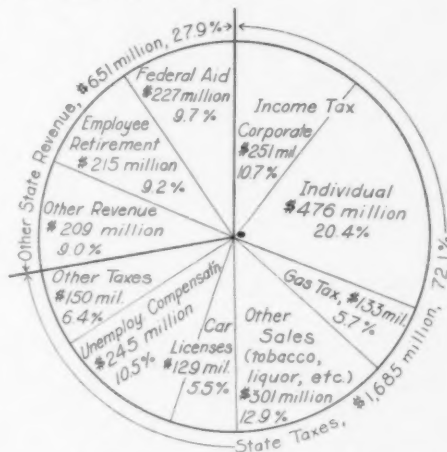


Figure 7 New York State Total - \$2,336 Million

REVENUES OF LOCAL GOVERNMENTS, 1957

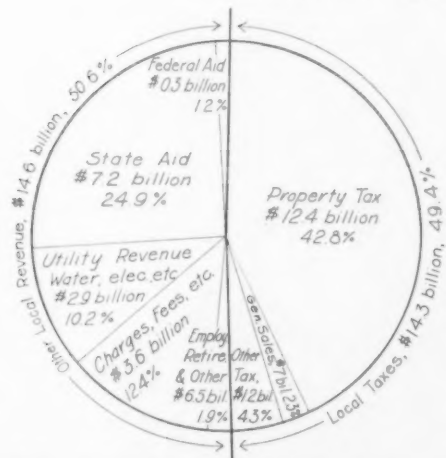


Figure 8 United States Total \$28.9 Billions

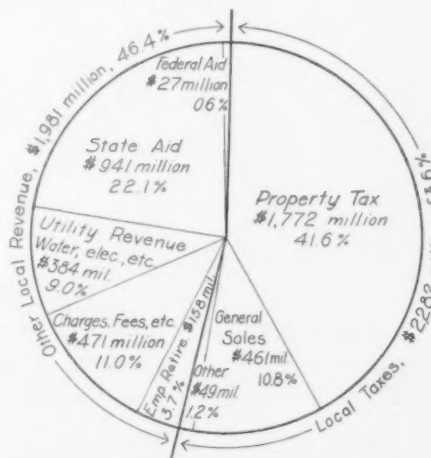


Figure 9 New York State Total - \$4,263 Millions

fied of source than either federal or local; imposts on income and sales, both general and selective, were more important than others, and levies of highway user taxes were universal and sizable.

New York State differs somewhat from the nationwide picture (Figures 7-9). The State did not use a general sales tax, but instead empowered its counties and cities to do so if they wished. The State depended relatively heavily upon income taxes; and relatively lightly upon the motor fuel tax (before the increase of 1959), and upon other revenues including charges for services. Locally, the property tax was about as important a part of total revenues in New York as it was country-wide, but general sales taxes were more important than over the nation. Figures for urban governments, especially New York City, dominate local totals in New York even more strongly than over the country as a whole.

New York tax totals compare with the entire country as follows:

	New York	New York City	Rest of State	United States
<i>Amounts per capita</i>				
State taxes	\$ 103	—	—	\$ 94
Local taxes	143	\$166	\$123	84
State-local taxes	246	—	—	178
<i>Personal income per capita</i>	2,544	—	—	2,043
<i>Ratio of taxes to income</i>				
State taxes	4.0%	—	—	4.6%
Local taxes	5.6	6.1%	4.9%	4.1
State-local taxes	9.6	—	—	8.7

"What are the requirements of a 'good' tax? To some people the only 'good' tax is a tax somebody else will pay. First of all, a good tax system should:

- "(1) distribute the cost of government with reasonable fairness among all people who receive benefits from government services and who have taxpaying ability;
- "(2) be readily understood by the taxpayer and as convenient for him to pay as possible;
- "(3) be relatively easy to administer to minimize administrative complications;
- "(4) be difficult to evade or avoid;
- "(5) provide adequate revenue for the needs of local, state and federal government;
- "(6) be flexible enough to meet changing conditions;
- "(7) be widely shared;

"(8) interfere as little as possible with the private production of wealth."*

The charts show that the property tax is the most important single impost collected by either state or local governments. Many of the state taxes, and some local, have been developed over perhaps the past 100 years as alternatives to heavier property taxation. Today all but a few states have left this tax largely or entirely to local governments.

Alternatives to local use of the property tax include:

1. State grants of power to localities to levy taxes other than on property.
2. Sharing state-collected taxes with localities from which the taxes are paid.
3. Sharing state-collected taxes through state aid, for specific programs (such as helping physically handicapped children) or for general local purposes.
4. Sharing federally collected taxes through federal grants-in-aid for specific programs.
5. State or federal direct assumption of some fiscal and administrative responsibilities of local governments.

SOME ISSUES.

1. Where should money needed to support the local government work-load come from? The property tax? Other local taxes? If so, what taxes? Local fees and charges? State aid? Federal aid? Other sources?
2. Are there too many or too few local governments to tax and spend efficiently in response to public demand? If so, how should they be changed?
3. Can and do local governments collect taxes as fairly and efficiently as the state or federal governments?
4. Can they perform their functions or work-load as productively and responsively to public demand as the state or federal government? How could they improve?
5. Should the state or federal governments take over and administer more, or less, of the local work-load, such as in education, highways, welfare? How would this affect local, state and national taxes?
6. Where should state money come from to support state operations and state aid to local government?
7. How could state governments be improved?
8. Where should federal money come from to support federal operations and federal aid to states?
9. How could the federal government be improved?

*Wood, Garland and William Heneberry, *Michigan's Tax Problem Is Yours*, (Open Meetings on Agricultural Policy, No. 22, 1958, Michigan State University, Department of Agricultural Economics.)

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